

November 7, 2019

Q2FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	662		547	
Sales (Rs. m)	83,139	95,096	83,139	95,096
% Chng.	-	-	-	-
EBITDA (Rs. m)	9,062	10,556	9,228	10,841
% Chng.	(1.8)	(2.6)	-	-
EPS (Rs.)	34.9	40.8	36.5	43.8
% Chng.	(4.6)	(6.8)	-	-

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	71,151	83,139	95,096	108,661
EBITDA (Rs. m)	7,782	9,062	10,556	12,061
Margin (%)	10.9	10.9	11.1	11.1
PAT (Rs. m)	4,013	5,350	6,265	7,159
EPS (Rs.)	26.2	34.9	40.8	46.7
Gr. (%)	24.6	33.3	17.1	14.3
DPS (Rs.)	2.0	3.0	4.0	4.7
Yield (%)	0.5	0.7	0.9	1.1
RoE (%)	13.6	15.8	16.1	16.0
RoCE (%)	19.3	20.0	20.4	20.7
EV/Sales (x)	1.0	0.9	0.8	0.7
EV/EBITDA (x)	9.2	8.0	6.8	5.9
PE (x)	16.7	12.5	10.7	9.4
P/BV (x)	2.1	1.9	1.6	1.4

Key Data

KAPT.BO | KPP IN

52-W High / Low	Rs.555 / Rs.300
Sensex / Nifty	40,654 / 12,012
Market Cap	Rs.68bn/ \$ 954m
Shares Outstanding	155m
3M Avg. Daily Value	Rs.202.34m

Shareholding Pattern (%)

Promoter's	54.37
Foreign	7.39
Domestic Institution	29.01
Public & Others	9.23
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.8)	(6.8)	25.4
Relative	(8.5)	(12.2)	8.7

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Stellar quarter, FY20 revenue guidance revised upward

Quick Pointers:

- KPTL revised revenue guidance upward from 15-20% to 20% for FY20.
- Net debt to be Rs8-10 bn by end of FY20 and interest cost at 1.7% of sales for the year. Target to be debt free by March 2021.
- Order inflow up 22% YoY at Rs24.9 bn, mainly driven T&D business. YTD order inflow stands at Rs49.4 bn (FY20 guidance of Rs100 bn). L1 of position of ~Rs20 bn, mainly T&D business.

Kalpataru Power Transmission Ltd (KPTL) reported strong set of numbers for 2QFY20 which were higher than our and consensus estimates. Revenue/PAT grew 25%/39% YoY mainly on the back of strong execution across the segments viz. T&D, Oil & Gas Pipeline and Railways segments. Order inflow was up 22% YoY at Rs24.9 bn, mainly driven T&D business. The company has maintained FY20 order inflow guidance of Rs100 bn led by opportunities in T&D (Green Energy Corridor projects in domestic market and international projects) and Infra sector. KPTL is confident on achieving growth guidance of minimum 20%, EBITDA margin of 10.5-11%. Approval process for transfer of Transmission Assets to CLP is progressing well and are as per planned timelines. We have cut standalone EPS for FY20/21E by 5/7% due to lowering margin and higher interest cost and tax adjustments. With strong revenue visibility on back of robust order-backlog, steady margin profile and positive outlook in T&D and emerging segments like Railways/Oil & Gas, KPTL is expected to deliver ~26% earnings CAGR over FY19-21E. With focus on improving capital allocation, balance sheet strengthening and strong visibility, we maintain PE multiple of 14x to core EPC business and maintain BUY with revised SOTP based TP of Rs662.

Strong execution across segments: Revenue for the quarter was up 25% YoY at Rs19.7 bn (PLe Rs18 bn), led by strong execution across the business and healthy order backlog. T&D revenue grew 16% YoY at Rs13 bn, Railways grew 100% at Rs4bn and Oil and Pipeline was flat at Rs3 bn. EBITDA margin came in at 10.5% (PLe 10.9%), down 40bps YoY. Absolute EBITDA grew 21% YoY at Rs2.1 bn (PLe Rs1.9 bn), led by strong revenue growth. While other income was up 43%YoY at Rs250 mn, interest cost increased 56% YoY due to rise in short term debt by ~50% YoY at Rs6.9 bn. PBT increased 15% YoY at Rs1.6 bn (PLe Rs1.4 bn). Tax rate for the quarter came in at 21% against 34.8% in 2QFY19. Hence, PAT for the quarter was up 39% YoY at Rs1.3 bn (PLe Rs1 bn).

Robust order backlog and pipeline provides strong revenue visibility: KPTL's order inflow during the quarter was Rs24.5 bn (YTD OI Rs49.5 bn) and L1 position of Rs20 bn (T&D ~Rs18bn; Railways and Oil & Gas Rs1 bn). The management has guided for order inflow of Rs90-100 bn (+20% YoY) in FY20, out of which 40% is expected to come from Railways & Oil Gas Pipeline and 60% from T&D. In the domestic T&D space, the management is positive on strong opportunities coming

from Green Energy Corridor tenders which are meant for evacuation of renewable energy. In the international market, management is positive on T&D opportunities coming from SAARC and African countries. Management has guided for 10-12% growth in T&D from both domestic and international. Currently, the order backlog stands at Rs151bn (up 7% YoY) of which 55% is from domestic and 45% from exports which provides strong revenue visibility. Of the total international order book 50% was contributed by Africa, 40% from SAARC countries and balance from Linjemontage and other countries.

Revenue guidance revised upward for FY20E: With strong execution in 1HFY20, KTPL revised upwards revenue growth guidance from 15%-20% earlier to 20% growth (including Linjemontage) and EBITDA margin of 10.5-11% for FY20. The T&D business is expected to achieve revenue and order inflow growth of 10-12% each for FY20 while non-T&D (railways & pipeline) is expected to grow 40-45% owing to strong execution traction. In 2QFY20 railways did not see tenders coming in but for Q3FY20 lot of tenders have started to come in. Management believes railways would clock in revenue of Rs16 bn by end of FY20. The EBITDA margin for T&D is expected in the range of 11.5-12% while railways and Oil & Gas are expected to have margins in the range of 9-10% in FY20E with some improvement.

Shubham Logistics (SSL) margins improves: 2QFY20 revenue decreased 1% YoY to Rs.342 mn. EBITDA margins expanded by 400bps YoY at 39.4% in 2QFY20 compared to 35.4% in 2QFY19. PBT down 6% YoY at Rs11 mn.

Exhibit 1: Q2FY20 Result Overview (Rs mn)

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	QoQ gr. (%)	H1FY20	H1FY19	YoY gr. (%)
Net Revenue	19,670	15,741	25.0	16,550	18.9	36,220	28,990	24.9
EBITDA	2,070	1,709	21.1	1,920	7.8	3,990	3,280	21.7
EBITDA Margin (%)	10.5	10.9		11.6		11.0	11.3	
Other Income	250	175	42.9	100	150.0	350	321.9	8.7
Depreciation	270	194	39.5	260	3.8	530	393	34.9
Interest	440	279	58.0	340	29.4	780	561	39.0
Extra ordinary items								
Profit before Tax	1,610	1,412	14.0	1,420	13.4	3,030	2,647	14.5
Tax	340	435		500		840	923	
Adjusted PAT	1,270	977	30.0	920	38.0	2,190	1,724	27.0
Net Margin (%)	6.5	6.2		5.6		5.5	5.6	
EPS	8.3	5.3		6.0		14.3	11.2	

Source: Company, PL

Other Con-call Highlights:

- **Interest cost increased** by 56% in 2QFY20 due to difficulties faced in collections specially in July and August 2019. From September collection have picked up quite significantly.
- **Indore real estate-** Execution is in full swing and have seen good traction of sales enquiries for the quarter. Around 25% of the units have been sold which contributed Rs730 mn to the ~consolidated revenue. Project is expected to be completed by Dec-19.
- **Oil & Gas Pipeline-** Current order book stands at around Rs28 bn and order inflow of Rs12.5 bn in 1HFY20. KPTL has target of achieving order inflow of Rs20 bn and revenue growth of 20% for FY20. It has submitted RFQ in many countries and have got clearance from some countries for the same. This segment continues to be the key focus area and management believes it can grow by 25-30% for next 2 years.
- Management has informed that Pledge will go down from ~42% at the end of Sep 2019.
- **Working capital-** WC days came down in 2QFY20 as collection increased and thus debt number reduced, there were lot of closure of projects which helped to increase retention and also received lot of advances. Management has guided for working capital days of 85-90 days in FY20.
- **Green corridor projects:** During the quarter Rs70-80 bn of GEC orders were announced where KPTL got 10-12% of the total. Order inflow of Rs150-160 has been highlighted by REC and PFC which are expected to be awarded in 2HFY20.
- **Linjemontage-** 2QFY20 reported revenue of Rs2.4 bn, YTD order inflow of Rs7.3 mn and has order book of Rs9 bn.
- **Capex guidance:** KPTL plans capex of Rs2 bn in FY20 mainly in plant expansion in Railways and Oil & Gas, International subsidiaries which will be funded through Internal accruals and cash flow generation. No significant capex in SSL except Rs50-100 mn.

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	71,151	83,139	95,096	108,661
YoY gr. (%)	23.9	16.8	14.4	14.3
Cost of Goods Sold	29,532	34,336	39,275	44,877
Gross Profit	41,620	48,803	55,821	63,784
Margin (%)	58.5	58.7	58.7	58.7
Employee Cost	4,541	5,404	5,991	6,846
Other Expenses	29,297	34,336	39,275	44,877
EBITDA	7,782	9,062	10,556	12,061
YoY gr. (%)	23.3	16.5	16.5	14.3
Margin (%)	10.9	10.9	11.1	11.1
Depreciation and Amortization	860	898	984	1,100
EBIT	6,922	8,164	9,571	10,961
Margin (%)	9.7	9.8	10.1	10.1
Net Interest	1,190	1,396	1,606	1,832
Other Income	512	563	620	681
Profit Before Tax	6,244	7,331	8,585	9,810
Margin (%)	8.8	8.8	9.0	9.0
Total Tax	2,231	1,981	2,320	2,651
Effective tax rate (%)	35.7	27.0	27.0	27.0
Profit after tax	4,013	5,350	6,265	7,159
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,013	5,350	6,265	7,159
YoY gr. (%)	24.6	33.3	17.1	14.3
Margin (%)	5.6	6.4	6.6	6.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,013	5,350	6,265	7,159
YoY gr. (%)	24.6	33.3	17.1	14.3
Margin (%)	5.6	6.4	6.6	6.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,013	5,350	6,265	7,159
Equity Shares O/s (m)	153	153	153	153
EPS (Rs)	26.2	34.9	40.8	46.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	8,543	8,543	8,543	8,543
Tangibles	8,425	8,425	8,425	8,425
Intangibles	118	118	118	118
Acc: Dep / Amortization	2,836	2,036	1,236	436
Tangibles	2,836	2,036	1,236	436
Intangibles	-	-	-	-
Net fixed assets	5,707	6,507	7,307	8,107
Tangibles	5,589	6,389	7,189	7,989
Intangibles	118	118	118	118
Capital Work In Progress	77	107	137	167
Goodwill	-	-	-	-
Non-Current Investments	9,324	9,802	10,279	10,820
Net Deferred tax assets	157	157	157	157
Other Non-Current Assets	1,524	1,554	1,586	1,617
Current Assets				
Investments	-	-	-	-
Inventories	6,221	7,289	8,337	9,526
Trade receivables	32,813	38,722	44,291	50,609
Cash & Bank Balance	1,455	2,113	3,307	4,775
Other Current Assets	20,022	22,778	26,054	29,770
Total Assets	82,519	94,521	107,208	121,599
Equity				
Equity Share Capital	307	307	307	307
Other Equity	31,214	35,839	41,255	47,444
Total Network	31,521	36,146	41,562	47,751
Non-Current Liabilities				
Long Term borrowings	4,542	5,342	5,442	5,542
Provisions	263	307	352	402
Other non current liabilities	2,308	2,354	2,401	2,449
Current Liabilities				
ST Debt / Current of LT Debt	1,537	2,537	2,737	2,937
Trade payables	20,599	23,917	27,356	31,259
Other current liabilities	21,748	23,917	27,356	31,259
Total Equity & Liabilities	82,518	94,520	107,207	121,599

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	6,244	7,331	8,585	9,810
Add. Depreciation	860	898	984	1,100
Add. Interest	1,190	1,396	1,606	1,832
Less Financial Other Income	512	563	620	681
Add. Other	(402)	(563)	(620)	(681)
Op. profit before WC changes	7,891	9,062	10,556	12,061
Net Changes-WC	(289)	(4,519)	(3,276)	(3,716)
Direct tax	(2,349)	(1,981)	(2,320)	(2,651)
Net cash from Op. activities	5,253	2,562	4,960	5,694
Capital expenditures	(1,184)	(1,728)	(1,814)	(1,930)
Interest / Dividend Income	204	563	620	681
Others	(746)	(509)	(508)	(573)
Net Cash from Inv. activities	(1,725)	(1,674)	(1,703)	(1,822)
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,291)	1,800	300	300
Dividend paid	(449)	(725)	(849)	(970)
Interest paid	(1,209)	(1,396)	(1,606)	(1,832)
Others	33	90	91	98
Net cash from Fin. activities	(2,915)	(230)	(2,063)	(2,404)
Net change in cash	613	658	1,194	1,468
Free Cash Flow	5,253	2,562	4,960	5,694

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	26.2	34.9	40.8	46.7
CEPS	31.8	40.7	47.2	53.8
BVPS	205.4	235.6	270.9	311.2
FCF	34.2	16.7	32.3	37.1
DPS	2.0	3.0	4.0	4.7
Return Ratio(%)				
RoCE	19.3	20.0	20.4	20.7
ROIC	12.9	15.4	16.0	16.6
RoE	13.6	15.8	16.1	16.0
Balance Sheet				
Net Debt : Equity (x)	0.1	0.2	0.1	0.1
Net Working Capital (Days)	95	97	97	97
Valuation(x)				
PER	16.7	12.5	10.7	9.4
P/B	2.1	1.9	1.6	1.4
P/CEPS	13.8	10.7	9.3	8.1
EV/EBITDA	9.2	8.0	6.8	5.9
EV/Sales	1.0	0.9	0.8	0.7
Dividend Yield (%)	0.5	0.7	0.9	1.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	17,247	24,914	16,550	19,670
YoY gr. (%)	21.7	29.0	24.9	25.0
Raw Material Expenses	6,640	11,889	5,710	9,250
Gross Profit	10,606	13,025	10,840	10,420
Margin (%)	61.5	52.3	65.5	53.0
EBITDA	1,839	2,664	1,920	2,070
YoY gr. (%)	21.0	27.4	22.2	21.1
Margin (%)	10.7	10.7	11.6	10.5
Depreciation / Depletion	230	237	260	270
EBIT	1,608	2,427	1,660	1,800
Margin (%)	9.3	9.7	10.0	9.2
Net Interest	311	318	340	440
Other Income	115	75	100	250
Profit before Tax	1,412	2,185	1,420	1,610
Margin (%)	8.2	8.8	8.6	8.2
Total Tax	492	816	500	340
Effective tax rate (%)	34.8	37.3	35.2	21.1
Profit after Tax	920	1,369	920	1,270
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	920	1,369	920	1,270
YoY gr. (%)	22.3	30.6	13.5	39.0
Margin (%)	5.3	5.5	5.6	6.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	920	1,369	920	1,270
YoY gr. (%)	22.3	30.6	13.5	39.0
Margin (%)	5.3	5.5	5.6	6.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	920	1,369	920	1,270
Avg. Shares O/s (m)	153	153	153	153
EPS (Rs)	6.0	8.9	6.0	8.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	BUY	704	483
2	1-Aug-19	BUY	624	482
3	4-Jul-19	BUY	565	532
4	10-May-19	BUY	565	457
5	5-Apr-19	BUY	547	460

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Reduce	1,442	1,461
2	Apar Industries	Accumulate	814	550
3	Bharat Electronics	Hold	118	113
4	BHEL	Hold	63	47
5	Cummins India	Hold	543	540
6	Engineers India	BUY	156	112
7	GE T&D India	Hold	202	184
8	Kalpataru Power Transmission	BUY	704	483
9	KEC International	BUY	352	271
10	Larsen & Toubro	BUY	1,800	1,432
11	Power Grid Corporation of India	BUY	224	199
12	Siemens	BUY	1,722	1,526
13	Thermax	Accumulate	1,300	1,153
14	Triveni Turbine	Accumulate	143	102
15	Voltamp Transformers	BUY	1,601	1,128

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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